

Opening Statement
Chairman Michael G. Oxley
Committee on Financial Services

Subcommittee on Oversight and Investigations
“One Broker Gone Bad: Punishing the Criminal, Making Victims Whole”
May 23, 2002

Good Morning. I want to take this opportunity to thank the Chairwoman of the Subcommittee on Oversight and Investigations, Congresswoman Sue Kelly for this important hearing.

The subject of today’s hearing, stock broker Frank Gruttadauria, had as many as 470 clients during the height of his success, earning more than \$6 million in commissions in a good year.

For some unknown reason, that was apparently not enough. It appears that over 15 years, Mr. Gruttadauria sent false statements to two dozen or more of his clients. It is further alleged that over that same 15-year period he misappropriated possibly hundreds of millions of dollars (somewhere between \$125 million and \$700 million) from those clients, several of whom treated him as warmly as they would members of their own families. One client even made him the executor of his estate.

He was never caught. Apparently feeling that he was on the verge of being found out, he called his activities to the attention of the Federal Bureau of Investigation (FBI), fleeing to Colorado where he eventually surrendered to authorities.

State and Federal authorities as well as the brokerage firms which employed Mr. Gruttadauria are continuing their months long efforts to uncover the extent of his activities and we can only hope that those efforts will bring a sense of closure to his many victims and their families.

It is my sincere hope that our efforts today will be of help in this ongoing investigation. We will have the opportunity to hear directly from several of Mr. Gruttadauria’s victims and we will learn first-hand from them how he concocted a scheme whereby he misdirected their brokerage-account statements to post office boxes which he rented and personally controlled. Mr. Gruttadauria then created false statements in order to mislead his clients about the real value of their investments.

Although some may feel that outrages of the sort inflicted by Mr. Gruttadauria upon his trusting clients are systemic, the efforts being undertaken by the law enforcement, prosecutors, SEC, NYSE, Lehman Brothers, and SG Cowen Securities would certainly indicate that this is not the case. Hindsight is always perfect, yet our examination revealed that there were missed opportunities for the various authorities to stop Mr. Gruttadauria’s criminal activity.

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The presence of representatives today from the Securities and Exchange Commission (SEC), the New York Stock Exchange (NYSE), the Securities Industry Association (SIA), the National Association of Securities Dealers (NASD) and the North American Securities Administrators underscores their commitment to ensure that violations of securities law such as this particularly egregious case do not occur in the future. I look forward to hearing from them today about those efforts.

Let me also note that the Financial Services Committee was pleased to work with the SEC in order to provide it with a significant increase in its budget to allow for a much-needed escalation of its enforcement abilities. Apparently, the SEC also had some information years ago on Gruttadauria. I also look forward to hearing from the SEC about how it will improve its processes.

Thank you again, Madame Chairwoman. I have every confidence that individual investors will benefit from your serious review of this case.

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